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SUBJECT: SCENESETTER FOR MARCH 23-24 VISIT OF CODEL
VOINOVICH

¶1. (SBU) Your visit comes at a critical moment for Serbia in this difficult year of big decisions on Kosovo, the future of the State Union and European integration. The death and burial of Slobodan Milosevic last week provided insights into a country that is exhausted and frustrated with the political system and its leaders. It is less rage than indifference and hopelessness. While the nationalists are clearly the only ones who can muster the 80,000 people we saw in the streets of Belgrade on Saturday, we would venture that none of the parties were able to focus the emotions of last week on a convincing future for this numbed electorate. In the difficult months ahead, we will continue to stress Serbia's future as a part of a free, democratic and modern Europe. Your visit can help reinforce that message.

¶2. (SBU) There were contradicting signs in the week following Milosevic's death about Serbia's readiness to put the difficult years of the 90's behind it. The government stood firm against pressure from the nationalists on any suggestion of a state funeral or manipulation of the courts to allow Milosevic's family to return. They did make certain allowances, however, that permitted some of the political exploitation of the deposed dictator's passing. But there was quite a bit of open commentary, in various newspapers and from different sources, about Milosevic's negative role in bringing war, chaos and decline to Serbia, and anecdotal reports that suggested most people simply did not want to return to the Milosevic story. The military and the Church for the most part stayed away and those state institutions that were forced to participate, e.g., the museum where his coffin finally was placed for two days for final respects, protested in a public and prominent way. More significant than the staged event in front of the parliament, was the fact that the government and the DS did not find a way to use Milosevic's end as a way to rally support for the future.

Continued Pressure on ICTY Cooperation

¶3. (SBU) In fact, we fear the government may focus on the wrong lessons from last week's events. There are already signs in the press and in private discussions with the Ambassador and business leaders that the government will seek an extension of the EU's hard April 5 "deadline" for Mladic's turnover to The Hague. The EU has already bureaucratically frozen the stabilization and association talks on the ground here but promise to make that suspension more formal in early April. The government is feeling the pressure even more as Milosevic's death and the recent suicide death of another Serb inmate at The

Hague have only deepened popular distrust and antipathy towards the ICTY. We should not let up on Mladic at this point. The Ambassador is stressing in his public statements the "moral compact" part of Serbia's ongoing reconciliation with the past as a key to building Serbia's future. He is seeing Kostunica on March 20 to press him to seize the moment and transfer Mladic before the EU closes the door on April 5.

¶4. (SBU) Popular discontent with The Hague notwithstanding, there are ample signs that the government has less to fear from the unreconstructed nationalists than Saturday's numbers in the street might indicate. The Socialist Party (SPS) has backed down from its threats last week to bring the government down (its votes keep the coalition in power) and it is almost certain that given their fading support and divided leadership, early elections would be their death knell. While recent polls show that the radicals and the socialists would win the majority of votes if the elections were held tomorrow, most observers here agree that the Radical Party (SRS) is simply not ready to go to elections now. A more significant conclusion from the polling data is the increasing drop out rate of voters across the board, but particularly in the democratic block. Mladic and an opening to Europe will have a dramatic impact in bringing those disaffected democrats back. We need to continue to press Kostunica and Tadic to seize this opportunity.

¶5. (SBU) On Kosovo, the government continues to engage responsibly on decentralization talks, while it insists that it will never accept Kosovo independence. You should welcome the progress in the latest round of decentralization talks in Vienna (March 17) and encourage both Tadic and Kostunica to continue their constructive engagement. US Special Envoy Wisner as well as Ahtisaari

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and senior British officials have delivered "private messages" to both Tadic and Kostunica about status. It would be helpful for you to acknowledge those discussions without getting into details, stressing the need for Serbia to support an outcome that will balance the will of the Albanian majority in Kosovo and their own aspirations, which we share, for a leadership role in a stable south central Europe that is fully integrated in Euro-Atlantic institutions.

¶6. (SBU) While Mladic conditionality continues to block Serbian participation in Partnership for Peace, there are numerous opportunities for promoting Euro-Atlantic integration that remain untapped. This includes the State Partnership Program, which continues to drift because of delays in the government's consideration of a pending bilateral Status of Forces Agreement (SOFA). In addition to the SOFA, there are two other key agreements waiting for implementation or further government consideration, including a Ground Lines of Communication (GLOC) Agreement with NATO (ratified but not yet entered into force); and a bilateral Security Cooperation Agreement with us, with our required Article 98 guarantees. We have recently gotten assurances from senior officials in Kostunica's cabinet that the government may be ready to move forward on these agreements. You should encourage both Kostunica and Minister of Defense Stankovic to complete these agreements quickly and to look for creative ways to use implementation to promote Serbia's interest in closer security ties with both the United States and NATO. On the non-proliferation front, Serbia continues to cooperate with us closely and we are looking to build further on recent GoS progress in destroying unneeded manpads.

STATE UNION

¶7. (SBU) While Montenegro is proceeding with plans to hold a referendum May 21 on the future of the State Union, the

Serbian government appears to be all but in denial on the issue. The government refuses to discuss the possibility of Montenegrin independence and its implications until after the referendum, although it has said it would respect the outcome of the referendum either way. The prospect of the State Union's dissolution is not as emotionally charged an issue for the Serbian public as Kosovo's future status is. There is speculation that a "gray zone" result (the pro-independence side receiving more than 50 percent but less than the 55 percent required by the EU to recognize Montenegro's independence) would cause a degree of instability and backlash among the pro-independence voters, but most agree that the State Union as it exists now is dysfunctional, and the Serbian public seems resigned to its possible dissolution.

ECONOMIC OUTLOOK

18. (SBU) In addition to the political and strategic challenges the shaky coalition government faces, it must also grapple with the challenge of building sustained prosperity to deliver rising incomes to a long-deprived population. Per capita income is USD 3,226, compared to USD 8,416 in Croatia, and unemployment hovers around 19 percent. The minister of labor and social policy reported in October that some 20 percent of Serbians live with incomes below the poverty line of USD 2.90 a day. The Government has made significant progress, with the banking sector now largely privatized and the economy producing strong growth. However, Serbia still is not receiving significant levels of foreign direct investment (FDI), which is the key to increasing exports and employment. Investors face numerous structural barriers, including extreme difficulty in land transactions, but the political uncertainty surrounding Kosovo status negotiations plays a role, as well.

19. (SBU) Your visit here is a great opportunity for a friend of Serbia to relay an encouraging but tough message to Serbia's democratic leadership. They need to hear that we are convinced that Milosevic's era is over and that we are focused on the future. But that will require Serbia to continue the difficult and wrenching process of reconciliation. Mladic and the ICTY are only a small part of that process, but a critical element for building a Euro-Atlantic future.

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